

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 H-01 L-03 PA-01 PRS-01

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OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

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TO SECSTATE WASHDC PRIORITY 4155

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FOR NAC AGENCIES

E.O. 11652: NA

TAGS: EAID, EFIN, RP

SUBJECT: PROPOSED ADB LOAN FOR ENGINEERING EDUCATION PROJECT
(PHILIPPINES)

SUMMARY: ADB MANAGEMENT PROHISED \$16.0 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVT OF PHILIPPINES TO FINANCE FOREX COST AND PORTION OF LOCAL COST OF UPGRADING ENGINEERING EDUCATION INSTITUTIONS AT UNIVERSITY LEVEL THROUGH DEVELOPMENT OF CURRICULUM AND PROVISION OF PHYSICAL FACILITIES, INCLUDING LABORATORY AND STAFF DEVELOPMENT. BECAUSE OF COMPLEXITY OF PROJECT AND IN ORDER TO ENSURE THAT LOAN ADMINISTRATION IS CARRIED OUT EFFECTIVELY, BANK WILL ENGAGE, ON RETAINER BASIS, PANEL OF THREE PHILIPPINE EDUCATION EXPERTS TO SUPPLEMENT BANK STAFF ON PROJECT IMPLEMENTATION. WITH THIS ASSURANCE, USADB IS PREPARED TO SUPPORT PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R82-77 WITH ATTACHMENTS DESCRIBING PROPOSED
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LOAN POUCHED ADDRESSEES AUGUST 15. BOARD CONSIDERATION SCHEDULED SEPTEMBER 1.

2. ADB MANAGEMENT PROPOSING \$16.0 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVT OF PHILIPPINES FOR ENGINEERING EDUCATION PROJECT. PROCEEDS WILL FINANCE (A) FOREX COST OF CONSTRUCTION OF CLASSROOMS AND

LABORATORIES, PROCUREMENT OF INSTRUCTIONAL EQUIPMENT AND MATERIALS, INTERNATIONAL FELLOWSHIPS, MATERIALS USED IN LOCAL TRAINING ACTIVITIES, AND CONSULTANTS FOR PROJECT IMPLEMENTATION; (B) PORTION OF LOCAL COST OF FELLOWSHIPS FOR PARTICIPANTS IN MASTER IN ENGINEERING EDUCATION COURSE; AND (C) INTEREST AND OTHER CHARGES DURING CONSTRUCTION ON ABOVE ITEMS. PROPOSED TERMS ARE 25 YEARS AMORTIZATION INCLUDING 5 YEAR GRACE PERIOD, 8.3 PERCENT INTEREST. REPUBLIC OF PHILIPPINES TO BE BORROWER AND EDUCATIONAL DEVELOPMENT PROJECTS IMPLEMENTING TASK FORCE (EDPITAF) TO BE EXECUTING AGENCY.

3. PHILIPPINE ENROLLMENT RATIOS FOR POST-SECONDARY SCHOOLS ARE FIFTH HIGHEST IN WORLD, EXCEEDED ONLY BY SWEDEN, UNITED STATES, JAPAN AND NEW ZEALAND. GEOGRAPHICALLY, 50 PERCENT ARE CONCENTRATED IN GREATER MANILA AREA, 18 PERCENT IN REST OF LUZON, 20 PERCENT IN VISAYAS, AND 12 PERCENT IN MINDANAO. HIGHER EDUCATION IS PROVIDED MAINLY IN PRIVATE SECTOR, AND, WITH EXCEPTION OF SECULAR INSTITUTIONS THAT HAVE CONTINUING (BUT DIMINISHING) ACCESS TO EXTERNAL SOURCES OF FUNDS, PRIVATE SCHOOLS ARE ALMOST COMPLETELY DEPENDENT UPON STUDENT FEES AS REVENUE SOURCE.

4. NUMBER OF COLLEGES AND UNIVERSITIES OFFERING ENGINEERING COURSES HAS GROWN RAPIDLY AND ENROLLMENT HAS EXPANDED LIMITED OFFICIAL USE

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BY 61 PERCENT BETWEEN 1972 AND 1976. HOWEVER, ALMOST ALL SUFFER FROM INADEQUATE TEACHING SPACE, LACK OF EQUIPMENT FOR WORKSHOPS AND LABORATORIES AND POORLY QUALIFIED STAFF. ALSO, ABSENCE OF NATIONAL STANDARDS FOR CURRICULA, STUDENT/STAFF RATIOS, INSTRUCTIONAL MATERIALS AND STUDENT PERFORMANCE HAS RESULTED IN WIDE VARIATION IN QUALITY OF ENGINEERING GRADUATES. MOST ENGINEERING STUDENTS ARE CONCENTRATED IN FOUR BASIC DISCIPLINES OF CIVIL, MECHANICAL, CHEMICAL AND ELECTRICAL ENGINEERING. ALTHOUGH GOVT HAS AUTHORITY TO REGULATE BOTH ENROLLMENT LEVELS AND QUALITY OF COLLEGIATE PROGRAMS, ITS EXERCISE OF THAT AUTHORITY HAS NOT BEEN EFFECTIVE, PRIMARILY BECAUSE OF STAFF SHORTAGES AND LACK OF RELEVANT PERFORMANCE STANDARDS AND EVALUATIVE CRITERIA.

5. PROPOSED PROJECT AIMS TO IMPROVE QUALITY OF ENGINEERING EDUCATION IN 20 ENGINEERING SCHOOLS DURING NEXT FIVE YEARS IN ORDER TO HELP ENSURE AVAILABILITY OF THE SKILLED ENGINEERING MANPOWER NEEDED TO SUPPORT PUBLIC AND PRIVATE INFRASTRUCTURAL AND INDUSTRIAL

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DEVELOPMENT. IN THIS REGARD, PROJECT WILL SUPPORT A COMBINATION OF INVESTMENTS TO DIRECTLY UPGRADE INSTRUCTIONAL PROGRAMS OF ENGINEERING SCHOOLS AND TO IMPROVE BROADER SYSTEMS FOR PLANNING, MANAGING AND FINANCING ENGINEERING EDUCATION, FOR TRAINING ENGINEERING TEACHERS, AND FOR DEVELOPING ENGINEERING CURRICULA AND RELATED TEACHING MATERIALS AND EQUIPMENT. OF PARTICIPATING UNIVERSITIES AND COLLEGES, UNIVERSITY OF PHILIPPINES (UP) IS A STATE INSTITUTION AND 19 ARE PRIVATE SCHOOLS. SEVEN ARE LOCATED IN MANILA, ONE EACH IN NORTHERN AND SOUTHERN LUZON, NINE IN VISAYAS AND TWO IN MINDANAO. THEY HAVE ABOUT 56 PERCENT OF ENROLLMENT AND 54 PERCENT OF GRADUATES OF COUNTRY'S 125 ENGINEERING SCHOOLS. OVER PAST THREE YEARS, THEY HAVE ALSO ACCOUNTED FOR 64 PERCENT OF PERSONS WHO SUCCESSFULLY PASSED QUALIFYING EXAMINATIONS OF PROFESSIONAL REGULATIONS COMMISSION.

6. PROPOSED PROJECT CONSISTS OF THREE INTERRELATED COMPONENTS: (A) FUNDS AND TECHNICAL ASSISTANCE WILL BE
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PROVIDED TO SUPPORT OPERATIONS OF A TECHNICAL PANEL FOR

ENGINEERING EDUCATION TO BE ESTABLISHED WITHIN DEPARTMENT OF EDUCATION AND CULTURE AND A NATIONAL ACCREDITATION SYSTEM WHICH WILL BE EMPLOYED BY TECHNICAL PANEL TO EVALUATE INDIVIDUAL COURSES OFFERED BY ENGINEERING SCHOOLS. THIS COMPONENT AIMS TO STRENGTHEN GOVT'S ABILITY TO PLAN AND REGULATE ENGINEERING EDUCATION. (B) FUNDS AND TECHNICAL ASSISTANCE WILL BE PROVIDED TO SUPPORT A NATIONAL ENGINEERING CENTER AND A MASTER IN ENGINEERING EDUCATION COURSE TO BE ESTABLISHED AT UP IN ORDER TO LAY THE FOUNDATION FOR CONTINUING PROGRAMS OF EDUCATIONAL IMPROVEMENT. (C) FINANCIAL AND TECHNICAL ASSISTANCE WILL ALSO BE PROVIDED TO 20 PARTICIPATING ENGINEERING SCHOOLS TO DIRECTLY UPGRADE QUALITY OF THEIR PROGRAMS AND ESTABLISH A BROAD INSTITUTIONAL BASE FOR FURTHER QUALITATIVE IMPROVEMENTS.

7. TOTAL CAPITAL COST OF PROJECT IS ESTIMATED AT \$22.794 MILLION EQUIVALENT. PROPOSED \$16.0 MILLION LOAN WOULD INCLUDE (A) \$12.967 MILLION FOR FOREX COMPONENT COVERING EXPENDITURES FOR CIVIL WORKS AND CONSTRUCTION MATERIALS, INSTRUCTION EQUIPMENT AND MATERIALS, INTERNATIONAL FELLOWSHIPS AND CONSULTING SERVICES; (B) \$2.574 MILLION FOR INTEREST AND OTHER CHARGES DURING CONSTRUCTION; (C) \$0.459 FOR LOCAL COST FINANCING. LOCAL COST FINANCING WILL BE UTILIZED TO MEET 50 PERCENT OF COST OF LIVING ALLOWANCES BUDGETED FOR FELLOWSHIPS FOR MASTER IN ENGINEERING EDUCATION PROGRAM. GOVT WILL PROVIDE BALANCE OF \$7.406 MILLION EQUIVALENT REQUIRED TO IMPLEMENT PROJECT. IN ADDITION, TWELVE OF PARTICIPATING PRIVATE SCHOOLS WILL PROVIDE \$2.594 MILLION TO MEET PORTION OF COSTS OF BUILDINGS TO BE CONSTRUCTED, BRINGING OVERALL COST TO \$26.0 MILLION. GOVT THROUGH SERIES OF LIMITED OFFICIAL USE

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COMPLEX ARRANGEMENTS, WILL RELEND OR GRANT PROCEEDS OF BANK'S LOAN TOGETHER WITH ITS OWN LOCAL COST FINANCING TO INDIVIDUAL PARTICIPATING INSTITUTIONS. GOVT WILL PASS ON THAT PORTION OF PROCEEDS OF BANK LOAN RELENT TO PRIVATE SCHOOLS FOR CIVIL WORKS, EQUIPMENT AND LIBRARY MATERIALS.

8. FINANCING OF INTEREST DURING CONSTRUCTION AND LOCAL CURRENCY EXPENDITURES IS JUSTIFIED PRIMARILY ON GROUNDS OF COUNTRY'S ECONOMIC SITUATION (LARGELY ON BALANCE OF PAYMENTS GROUNDS). LOCAL COST FINANCING WILL COVER ONE-HALF OF LIVING ALLOWANCES IN FELLOWSHIPS WHICH GOVT IS ACTUALLY PROVIDING AS GRANTS TO PRIVATE SCHOOLS. SCHOOLS WILL FINANCE OTHER HALF. FINANCING OF THESE LOCAL COSTS IS FURTHER JUSTIFIED ON GROUNDS SOCIAL BENEFITS OF PROJECT ARE RELATIVELY HIGH WHILE FINANCIAL RETURNS TO PARTICIPATING

SCHOOLS ARE LOW. MISSION COMMENTS: WE UNDERSTAND PHILIPPINE GOVT WAS RELUCTANT TO FINANCE ITS HALF OF FELLOWSHIP COSTS WHICH BANK FELT IMPORTANT TO PROJECT'S SUCCESS. BANK THEREUPON OFFERED TO PROVIDE LOCAL COST FINANCING. USED PLANS TO QUESTION NEED FOR INCLUSION LOCAL COST FINANCING BY BANK, BUT IN VIEW SMALL AMOUNTS INVOLVED, DOES NOT CONSIDER ISSUE OF SUFFICIENT SIGNIFICANCE TO OBJECT TO PROJECT WHICH, ON WHOLE, SEEMS HIGHLY DESIRABLE.

10. EDPITAF WILL PROCURE MOST INSTRUCTIONAL EQUIPMENT

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AND MATERIALS IN ACCORDANCE WITH BANK'S GUIDELINES OF PROCUREMENT. INDIVIDUAL CONTRACTS OF \$100,000 OR MORE WILL BE AWARDED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING; SMALLER CONTRACTS ON BASIS OF BIDS OR QUOTATIONS FROM REASONABLE NUMBER OF SUPPLIERS IN MORE THAN ONE MEMBER COUNTRY. FOR COMPATIBILITY WITH EXISTING EQUIPMENT AND FACILITIES, AN ESTIMATED 10 PERCENT OF EQUIPMENT ITEMS (\$414,000) WILL BE SUBJECT TO PROPRIETARY PURCHASING. BECAUSE CIVIL WORKS CONTRACTS ARE FAIRLY SMALL AND SIMPLE AND UNLIKELY TO ELICIT INTERNATIONAL INTEREST, CONTRACTS WILL BE AWARDED TO PREQUALIFIED LOCAL CONTRACTORS ON COMPETITIVE BASIS. CONSULTANTS WILL BE SELECTED AND ENGAGED IN

ACCORDANCE WITH BANK'S GUIDELINES ON USES OF CONSULTANTS AND PARA. 15 OF TECHNICAL ASSISTANCE OPERATIONS (ADB DOC. 4-51-77). IN VIEW COMPLEXITY OF PROJECT AND TO ENSURE THAT LOAN ADMINISTRATION IS CARRIED OUT EFFECTIVELY, BANK WILL ENGAGE, ON RETAINER BASIS, A PANEL OF UP TO THREE PHILIPPINE EDUCATION EXPERTS TO SUPPLEMENT BANK'S STAFF LIMITED OFFICIAL USE

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WITH REGARD TO REVIEWS OF PROCUREMENT AND CONSTRUCTION CONTRACTS AND REVIEWS OF SCHOOLS' PROGRESS IN IMPLEMENTING PROJECT.

11. BANK MISSION INDICATES IT HAS CAREFULLY EXAMINED FINANCIAL IMPLICATIONS OF PROJECT AND CONSIDERS ALL SCHOOLS TO BE FINANCIALLY VIABLE AND CAPABLE OF RAISING SUFFICIENT FUNDS FROM THEIR INTERNAL RESOURCES TO MEET FINANCIAL REQUIREMENTS. HOWEVER, IN VIEW OF FUTURE OPERATING UNCERTAINTIES, MISSION AND EDPITAF HAVE OBTAINED ASSURANCES FROM PRIVATE, NON-SECTARIAN SCHOOLS THAT THEY WOULD LIMIT BOTH DIVIDEND PAYMENTS AND ADDITIONAL BORROWINGS, WHICH WILL BE INCORPORATED IN EACH SCHOOL'S SUBLOAN AGREEMENT. ADDITIONALLY, GOVT HAS ASSURED IT WILL PROVIDE NECESSARY ASSISTANCE TO SCHOOLS (THROUGH RESTRUCTURING OF LOAN, MORATORIUM ON INTEREST PAYMENTS, ETC.) IN EVENT SCHOOLS ENCOUNTER FINANCIAL DIFFICULTY, PRIMARILY DUE TO PROJECT IMPLEMENTATION.

12. PROJECT REPRESENTED MAJOR COMMITMENT BY GOVT TO INITIATE PROCESS OF UPGRADING QUALITY OF ENGINEERING EDUCATION. IT WILL HELP MEET COUNTRY'S NEEDS FOR BETTER TRAINED ENGINEERING MANPOWER TO SUPPORT COUNTRY'S PUBLIC AND PRIVATE INDUSTRIAL AND INFRASTRUCTURAL PROGRAMS. IT WILL HELP ALLEVIATE REGIONAL IMBALANCES IN EDUCATIONAL AND DEVELOPMENT OPPORTUNITIES. PROJECT WILL ALSO REPRESENT MAJOR STEP TOWARDS IMPLEMENTING GOVT'S EXISTING POLICY OF ASSISTING AND BETTER UTILIZING RESOURCES OF PRIVATE EDUCATIONAL SECTOR. BANK IS WELL AWARE OF COMPLEX NATURE OF PROJECT AND NECESSITY FOR BANK STAFF TO VISIT EACH OF 2 PARTICIPATING SCHOOLS PERIODICALLY TO REVIEW THEIR PROGRESS IN IMPLEMENTING PROJECT AND IN CARRYING OUT THEIR PROGRAMS OF EDUCATIONAL IMPROVEMENT. LIMITED OFFICIAL USE

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USADB BELIEVES THAT BANK STAFF, SUPPLEMENTED BY PANEL OF THREE PHILIPPINE EDUCATION EXPERTS, CAN CARRY OUT

NECESSARY REVIEWS IN ORDER TO IMPLEMENT PROJECT IN
SATISFACTORY MANNER. USADB, THEREFORE, SUPPORTS
PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

13. U.S. MISSION MANILA'S COMMENTS HAVE BEEN REQUESTED
FOR NAC AGENCIES, PURSUANT TO STATE 119795 DATED 3 JULY
1972.

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Decaption Note:
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Disposition Approved on Date:
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